



CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

Revised June 1, 2004

ADMINISTRATION MEMO CONFIRMS PLANS FOR BUDGET CUTS IN MANY DOMESTIC DISCRETIONARY PROGRAMS IN 2006

by David Kamin, Richard Kogan, and Robert Greenstein

Last week the *Washington Post* reported that the White House Office of Management and Budget has sent a memorandum to federal departments and agencies directing most of them to include widespread funding cuts in the fiscal year 2006 budgets that they submit to OMB this summer. The memo directs agency heads to adhere to the funding levels for fiscal year 2006 that are contained in an OMB budget document issued in February, in conjunction with the President's budget. The budget document, which includes proposed funding levels for every budget account in the government for each year from 2005 through 2009, proposes cuts in nearly every domestic non-entitlement program in the federal budget in 2006 and subsequent years, except for homeland security programs. The new OMB memorandum instructs agency heads that if they wish to request higher funding for any budget account in 2006 than the February OMB budget document includes, they must offset the additional funding with still deeper cuts in other programs in their agencies.

In the past few days, the White House has tried to deny these budget cuts are being planned and to dismiss the significance of both the new OMB memo to agency heads and the February OMB budget document. The White House has claimed that the reduced funding levels for 2006 and subsequent years that are contained in the President's budget have no meaning, are purely "formulaic," and are no way an indication that the Administration is seeking these budget cuts.

These protestations are disingenuous. They continue a pattern that began in February of the Administration seeking to disavow funding cuts contained in its budget for years after 2005. The evidence is now abundant that funding cuts of this magnitude are what the Administration is seeking.

- The new memo instructs agency heads that, in constructing their budget requests for fiscal year 2006, they must "assume that accounts are funded at the 2006 level specified in the 2005 Budget database." The memo further directs that any increases for any accounts above the levels specified in the OMB budget tables must be offset by further decreases in funding below the levels shown in the OMB tables for other programs in the same agency.
- In addition, the President's budget proposes that binding caps be placed in statute on both discretionary funding levels and discretionary spending levels for fiscal years 2005 – 2009. The caps would be fixed at the overall amounts included for discretionary programs in these OMB budget tables, thereby locking these

funding cuts into law. The caps would be enforced through across-the-board cuts in discretionary programs that would be triggered automatically if the caps otherwise would be exceeded. On April 2, the White House formally transmitted this legislation to Congress.

- In short, the proposed cuts do represent Administration policy, except to the degree that cuts in some programs may be replaced with deeper cuts in other programs.

If these policies are adopted, the result will be significant budget cuts throughout the federal government, including cuts in some of the very programs the Administration has been claiming credit for proposing to increase in 2005.

- Holding all agencies to the funding levels proposed in the President's budget, as the White House memo requires, would lead to a substantial cut in overall funding in 2006 for domestic discretionary programs outside homeland security. The reductions would affect nearly every area of domestic programs, including environmental programs, education and job training, veterans programs, health, and transportation. After adjusting for inflation, overall funding for domestic discretionary programs outside homeland security would be reduced by \$21 billion, or 5.3 percent, between 2004 and 2006. (Funding would be reduced even in nominal terms — i.e., without any adjustment for inflation — by \$5 billion from 2004 to 2006.)¹
- Under the OMB budget documents, few domestic programs would escape budget cuts. For example, veterans' medical care (except for a small part of it considered to be a homeland security function) would be cut in 2005 by about \$380 million (i.e., it would be reduced by \$380 million below the 2004 level, adjusted for inflation). Veterans' medical care would then be cut an additional \$1.5 billion in 2006 (below the 2005 level, adjusted for inflation), for a total cut of \$1.9 billion over two years. (Even without adjustment for inflation, the program would be cut \$880 million from 2005 to 2006.)
- Even programs that have been touted as Administration priorities and that the Administration proposes to expand in 2005 would, in most cases, be cut starting in 2006. For example, the Administration has proposed increasing funding for the National Institutes of Health by more than \$310 million from 2004 to 2005. But this funding would then be sliced more than \$920 million in 2006, after adjusting for inflation. (These figures cover all of NIH except for a small component considered to be part of homeland security.) The budget also includes cuts in 2006 in formerly favored programs such as low income home energy assistance, Pell Grants and other student financial assistance, and education for the

¹ The overall figures cited here compare CBO's estimate of the Administration's funding levels with CBO's "baseline," which is the 2004 level adjusted for inflation. Both we and CBO represent funding for highway and mass transit programs by the requested "obligation levels." We also use expenditure comparisons rather than budget authority figures to judge the size of the cuts in the housing voucher program.

disadvantaged (Title I). In each of these cases, funding would be below the 2005 levels even if inflation is ignored.

The Administration is pushing these funding cuts alongside its proposals to make permanent the extension of costly tax cuts that disproportionately benefit high-income Americans and to erect additional tax cuts beyond the extensions. Analysis by the Urban Institute-Brookings Tax Policy Center shows that tax cuts already enacted will deliver an average income tax reduction of \$109,000 in 2006 to people with annual incomes of more than \$1 million. These “millionaires” by themselves are slated to receive a total of \$32 billion in income tax cuts in 2006. This \$32 billion revenue loss substantially exceeds the \$21 billion in savings the Administration seeks to secure in 2006 by cutting most domestic discretionary programs outside homeland security.